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Pension Plan  
Board

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de retraite des enseignantes  
et des enseignants

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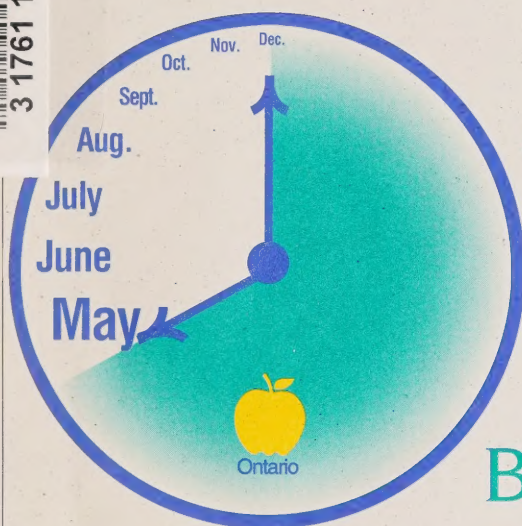
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# EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

**PLEASE READ THIS SPECIAL ISSUE CAREFULLY IF  
YOU APPLIED BEFORE 1992 TO BUY CREDIT**

**SPECIAL EDITION**



Applied  
to Buy  
Credit  
Before 1992?



## Time to Buy is Running Out

**T**he December 31, 1994, payment deadline will arrive sooner than you think, just like the beginning of a new school year.

If you're one of the 30,000 teachers who were approved to buy credit before 1992 and you haven't completed your purchase, be sure to get your payment to us before the deadline.

The changes by Revenue Canada mean that *all* purchases applied for before 1992 are affected. The deadline applies to you even if we sent you a letter saying you had until retirement to pay.

**Everyone who applied before 1992 to buy credit must make their payments by December 31, 1994.**

However, if you're retiring this year, you'll need to complete your payment *before* you go on pension.

We've assembled a specialized team just to handle the expected flood of payments. To encourage you to pay well before the December deadline, we're offering an incentive—a chance to win one of 30 computers.

### **PAY NOW, WIN A COMPUTER!**

**T**he sooner you complete your payment, the more chances you'll have to win a computer or

cash—your choice of an IBM PS/1, a Toshiba T1950 notebook or \$2,500. When you complete your payment, you'll be eligible to win. Five winners will be drawn each month until September 1994.

As a bonus, if you win in May or June, you'll receive an additional \$500 gift certificate to buy software.

You could win your choice of:

- 1. IBM PS/1, 486 DX 2/50 desktop**
  - 4 MB memory, 253 MB hard drive
  - DOS 6.0, Windows 3.1
  - Microsoft Works 3.1, Fitness
  - 14" SVGA colour monitor **OR**
- 2. Toshiba T1950 notebook, 486 DX2/40**
  - 4 MB memory, 200 MB hard drive
  - DOS 6.0, Windows 3.1
  - Carrying case **OR**
- 3. \$2,500.**

### **WHY COMPUTER DRAWS?**

The computer draws will save money.

Our experience is that teachers prefer to wait until the deadline to pay. With so many teachers eligible to buy credit, this would stretch our staff resources beyond the limit.

The cost of handling a sudden increase in the workload is estimated to be four to five times the cost of the computers. Encouraging teachers to pay by September will help to manage our work more efficiently and reduce costs.



# Updating Your Cost Quote

**N**ot sure how much you owe? Updating the cost of buying credit to include the accumulated interest charges is as easy as one, two, three, four.

## 1. PAY ON ONE OF THE DATES OFFERED

You probably received a statement in April with the cost of buying your credit on four payment dates—April 30, June 30, September 30 and December 31. The simplest way to pay for your purchase is to select one of the three remaining dates and pay the amount owing on that date.

If you'd like to pay on a different date, or you didn't receive a statement, here are some other easy ways to update the cost of your purchase and complete your payment.

## 2. WE'LL CALCULATE THE INTEREST FOR YOU

Simply send us a cheque for the amount indicated on the latest statement we sent you—be sure to include the stub. We'll calculate the

additional interest and let you know the remaining amount to complete your purchase.

## 3. YOU CAN CALCULATE THE INTEREST

You can calculate the interest and send us the total amount. You'll find the interest rate for your purchase on the latest cost quote we sent you. Then determine the period from the statement date to when you want to pay and do your calculations compounding the interest annually as shown in the example.

### TIPS ENSURE YOUR PAYMENT ARRIVES ON TIME

#### Make a lump sum payment

This is the final year to pay. Making one payment for the amount owing is the simplest way to pay. Plus, the sooner you complete your purchase of credit, the more chances you'll have to win a computer.

#### Make sure your payment is accompanied by information

Please include the stub you received with your cost quote.

### Example:

If the last calculated cost is dated April 30, 1992, and you want to pay on May 31, 1994, the total time is two years, one month. Assume the amount you owe is \$2,000, and the annual interest rate is 10 per cent.

#### Year 1 (12 months)

$$\$2,000 \times 10\% = \$ 200$$

#### Year 2 (12 months)

$$\$2,200 \times 10\% = \$ 220$$

#### Year 3 (one month)


$$\$2,420 \times .83\% * = \$ 20$$

$$\text{Total interest} = \$ 440$$

$$\text{Total owing} = \$2,440$$

$$*30/365 \times 10\% = .83\%$$

## 4. STILL NOT SURE HOW MUCH YOU OWE?

Complete the enclosed cost quote request form, fold and seal it and drop it in the mail. We'll send you a new cost quote in about six weeks. 


## Coming to terms

### WHAT WE REALLY MEAN BY ACTUARIAL COST

**A**ctuarial cost is the estimated present value of the improvement to your pension that results from the purchase of credit. The calculations are based on interest rate,

inflation and mortality rate assumptions, and take into account your age, credited service and salary. Generally, the closer you are to retirement the higher the cost.

### Example:

Kathryn is 50 years old with a best-five year average salary of \$60,000. She applied before 1992 to buy one year of service for an absence from teaching in 1973. If she pays in 1994, her cost, based on her contribution plus interest, is \$3,180. If she waits until 1995, the actuarial cost for this credit is about \$35,000. 

# In Doubt about Buying Credit ? Some Points to Ponder

*Are you wondering whether to pay for the credit you applied to buy before 1992? Here are some facts to help you with your decision.*

- This is your last chance to buy credit under the old rules where cost is based on contributions plus interest. If you miss the December deadline, you'll have to reapply to buy the credit. If approved, you'll pay based on actuarial cost, which is generally more expensive.
- Purchases for certain types of service, such as teaching at a designated private school, will no longer be allowed after the deadline.
- Buying credit gives you a higher pension when you retire and, if the purchase gives you credit in a school year in which you previously

had none, can allow you to retire earlier with an unreduced pension.

## IF I BUY CREDIT, WHAT IS THE IMPROVEMENT TO MY ANNUAL PENSION?

The table below gives you an estimate of the improvement to your annual unreduced pension in today's dollars. Remember, teachers who retire at age 58 can on average expect to live about 25 years in retirement.

However, the improvement to your pension may come under restrictions established by Revenue Canada. Your pension improvement is currently limited to \$1,150 per year if you:

- applied after June 7, 1990, for an absence taken before 1990, **and**
- were not a contributor to a

registered pension plan during your absence.

## Example:

If you taught outside Canada before 1990 for at least a calendar year, either after resigning or before you began teaching in Ontario, you would not have been a contributor to a pension plan. Your pension improvement would be subject to the Revenue Canada limit.

## WHAT IF I DON'T HAVE THE MONEY RIGHT NOW?

- You can transfer some or all the money for your purchase of credit from your RRSP. You won't be able to claim the amount you transferred as a tax deduction again, but it is one way to invest in your retirement without dipping into your savings.

A word of advice—it takes time to transfer money from an RRSP. To be sure the transfer is completed by the December deadline, we suggest you start the process as soon as possible. Call the financial institution looking after your RRSP, or call us at (416) 226-2700 or 1-800-668-0105 and ask for Revenue Canada form T2033. You can also request the form by calling Phone-A-Memo, day or night, at (416) 226-4200 or 1-800-387-0945 then press 9 to leave a message—be sure to leave your name and complete mailing address.

- You can also borrow the money. With interest rates still relatively low, and some or all of your purchase tax deductible, borrowing the money is an option worth considering.


## IMPROVEMENT TO YOUR UNREDUCED PENSION IN TODAY'S DOLLARS

Credit	Average 'best 5' year salary			
	\$40,000	\$50,000	\$60,000	\$70,000
one year	\$800	\$1,000	<b>\$1,200</b>	\$1,400
two years	\$1,600	\$2,000	\$2,400	\$2,800
five years	\$4,000	\$5,000	\$6,000	\$7,000

*You can also estimate the improvement to your annual pension by using the formula*

Average 'best 5' salary	x	Years of Credit	x	Pension factor of 2%	=	Improvement to your Annual Pension
\$60,000	x	1	x	2%	=	<b>\$1,200</b>

## YOU'LL HAVE TO DECIDE SOON

Remember, extensions beyond December 31, 1994, are not possible. 

# Ask Us a Question

## PARTIAL PAYMENTS

"I have already paid most of my purchase for a two-year absence from teaching in the 1970s. What happens to the amount I've paid so far if I don't finish paying for the entire leave by the December 31st deadline?"

K.H., Chatham

If you pay for a portion of your purchase, you'll receive partial credit. If sometime after the deadline, you wish to pay for the remaining portion of your absence, you'll need to reapply.

If you made a partial payment, you'll receive a statement from us next spring indicating the precise amount of credit you purchased.

## EXCHANGE

is a publication prepared by the Ontario Teachers' Pension Plan Board. We welcome your comments and suggestions. Feel free to call the editor, John Cappelletti, at (416) 730-5351 or write to:

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## OFFICE HOURS

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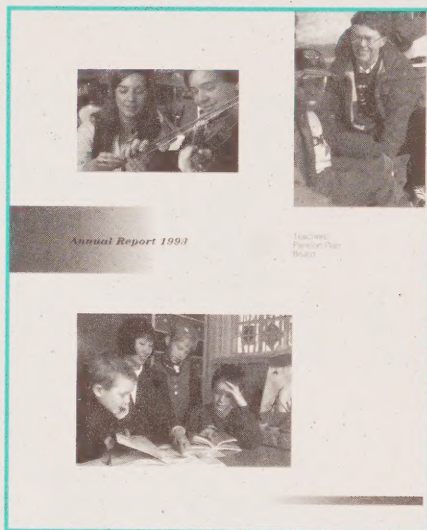
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See a copy at your school

# 1993 Annual Report



The 1993 Annual Report provides a description of the pension plan's investments for the year. Copies have been sent to your school. Your copy of the *Highlights of the 1993 Annual Report* has been included with this issue *Exchange*. If you'd like a copy of the 1993 Annual Report, call our Communications Department.

## AT-A-GLANCE

- The plan's assets are \$34.7 billion.
- The 1993 return on our investments was 21.7 percent.
- Since 1990, the rates of return have averaged 13.8 percent, providing a real rate of return of 10.7 percent after inflation—well above our long-term goal of 4.5 percent per year plus inflation. 🍌



DUDLEY DOOMSAVER

“I bought an RRSP instead of credit in my pension. It's essentially the same thing, so what's the big deal?”

Contributions to your pension or an RRSP are generally tax deductible; however, there are benefits your pension provides that you can't buy from an RRSP.

## CONSIDER THIS:

- Your pension is for life. Any improvement you make to your pension by buying credit will be paid to you until you die. Keeping in mind that on average a teacher can expect to live some 25 years on pension, your investment will be paid back many times over. An RRSP pays you only your investment plus interest.
- Your pension is indexed to inflation while an RRSP is not. Over time, inflation can erode the value of your spending power—in 1974 a pension worth \$14,000 per year indexed to inflation is today worth more than \$50,000.
- When you die your spouse is entitled to a survivor pension for life, indexed to inflation. If an RRSP does provide survivor benefits, it will be at a much greater cost.